

The effect of marketing innovation, market orientation, and social capital on competitive advantage and marketing performance: A study in MSMEs of embroidery Central Java Province

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ABSTRACT

This study deals with marketing innovation, market orientation, and social capital in affecting the competitive advantage and marketing performance in Micro, Small, and Medium Enterprises (MSMEs) of embroidery in Central Java Province. In this respect, this study tried to test and analyze the effect of marketing innovation, market orientation, and social capital on competitive advantage and marketing performance in Micro, Small, and Medium Enterprises (MSMEs) of embroidery in Central Java Province. The samples are 150 respondents as the owners of the embroidery business in Central Java Province. The technical analysis used is Structure Equations Modeling with AMOS Software version 22. The results show that: (1) marketing innovation has significant effect on competitive advantage; (2) market orientation has significant effect on competitive advantage; (3) social capital has significant effect on competitive advantage; (4) competitive advantage has significant effect on marketing performance; (5) marketing innovation has significant effect on marketing performance; (6) market orientation has significant effect on marketing performance; (7) social capital has no significant effect on marketing performance. The implication of this study is that the MSMEs of embroidery could improve marketing performance by increasing marketing innovation, market orientation, social capital and competitive advantage. This study also shows that competitive advantage is an intervening variable on marketing performance.

ABSTRAK

Penelitian ini berkaitan dengan inovasi pemasaran, orientasi pasar, dan modal sosial dalam mempengaruhi keunggulan bersaing dan kinerja pemasaran di Usaha Mikro, Kecil, dan Menengah (UMKM) bordir di Provinsi Jawa Tengah. Dalam hal ini, penelitian ini bertujuan untuk menguji dan menganalisis pengaruh inovasi pemasaran, orientasi pasar, dan modal sosial pada keunggulan bersaing dan kinerja pemasaran di Usaha Mikro, Kecil, dan Menengah (UMKM) bordir di Provinsi Jawa Tengah. Sampel terdiri dari 150 responden yaitu pemilik bisnis bordir di Provinsi Jawa Tengah. Analisis teknis yang digunakan adalah Structure Equations Modeling dengan AMOS Software versi 22. Hasil penelitian menunjukkan bahwa: (1) inovasi pemasaran memiliki pengaruh yang signifikan terhadap keunggulan kompetitif; (2) orientasi pasar memiliki pengaruh yang signifikan terhadap keunggulan kompetitif; (3) modal sosial memiliki pengaruh yang signifikan terhadap keunggulan kompetitif; (4) keunggulan kompetitif memiliki pengaruh yang signifikan terhadap kinerja pemasaran; (5) inovasi pemasaran memiliki pengaruh yang signifikan terhadap kinerja pemasaran; (6) orientasi pasar memiliki pengaruh yang signifikan terhadap kinerja pemasaran; (7) modal sosial tidak berpengaruh signifikan terhadap kinerja pemasaran. Implikasi dari penelitian ini adalah bahwa UMKM bordir bisa meningkatkan kinerja pemasaran dengan meningkatkan inovasi pemasaran, orientasi pasar, modal sosial, dan keunggulan kompetitif. Penelitian ini juga menunjukkan bahwa keunggulan kompetitif adalah variabel intervening pada kinerja pemasaran.

1. INTRODUCTION

Central Java Province has some basic concepts of

economic development in its Medium Term Development Plan of Central during 2008-2013. There are

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three pillars of the economic development in this province such as agriculture in the broad sense, export-oriented Micro, Small and Medium Enterprises (MSMEs), and community-based tourism. This model has a positive impact on the economic development of the region which is characterized by the increased income in business, the growth of economic activities, and the increase in employment. It proves that cluster model is a strategic model for the development of MSMEs in Central Java (Kertati 2012). The cluster is defined as a business group that has been linked with supporting industries and supporting institutions. Cluster is a group of MSMEs that has already existed for generations, which is developed and supported by government and private institutions. Cluster has two key elements: (1) businesses in the cluster are interconnected and (2) are located in an area adjacent to each other and easily recognized.

Based on the results of preliminary observations of the business phenomenon and business practices in MSMEs of Embroidery in Central Java, there are still many problems that need to be analyzed and solved appropriately in terms of the management policies so that the craft business, as the folk craft, can continue to grow and achieve competitive advantage and an increase in marketing performance as expected. Furthermore, the real problems faced by the embroidery clusters can be identified into five variables, namely: marketing innovation, market orientation, social capital, competitive advantage, and marketing performance.

Marketing innovation involves the development of product innovation, marketing programs, solutions to marketing problems, searching of customer needs, new distribution channels, and brand (Kotler and Keller 2012). The fact shows that marketing innovation is still running individually, but not collectively. Results of field observations found that the development of marketing innovation needs to be supported by talented human resources. Therefore, it is necessary to obtain the facts that can be used for the solutions. The existing facts indicate that there is still competition among members of the group. However, as long as there is competition, there will be difficulty to build collaborations between companies in a market orientation. Market orientation which is addressed to the customer value requires a shared commitment for the company, individually and in groups, that can provide added value to the products marketed (Narver & Slater 1990).

Networking on supporting industries and supporting institutions is a social capital to en-

hance the competitive advantage (Porter 1985). However, such conditions have not been built significantly. The entrepreneurs cannot yet establish a social relationship and an integrated relationship among the strong parties. The norms of work in the relationship among the entrepreneurs have not been built naturally, in which the norms should actually run in reciprocal basis which generates mutual take and give. The implementation of these norms could be seen when one of the entrepreneurs receives abundant product orders, while at the same time he is in a shortage of production, but he is likely still unwilling to cooperate, he is reluctant to give orders to his business partners in the cluster. Therefore, it is still closed and there has been no strong cooperation that can generate mutual giving. In this case, the issue of cooperation is still something that needs to be examined in conjunction with a competitive advantage and performance marketing.

The research conducted by Fathonah (2009), measuring the market orientation on competitive advantage in improving the marketing performance of batik companies in Surakarta, concluded that market orientation has significant effect on competitive advantage and marketing performance. Another study by Cadogan et al. (1999) also confirmed that basically there is a relationship between market orientation and marketing performance. Beside that, Julian (2005) also concluded that there is a significant relationship between market orientation and marketing performance. On the other hand, research by Pelham (1999) concluded that there is no significant relationship between market orientation and marketing performance. Likewise, the results of the research by Greenley (1995) also concluded that there is no significant relationship between market orientation and marketing performance. This study tried to find evidence whether market orientation has significant effect on competitive advantage and marketing performance.

Based on the existing differences among the researchers described above and the supporting theories, this study attempts to answer the question whether marketing innovation, market orientation and social capital have a significant effect on competitive advantage and marketing performance.

Formulation of the problems in this research is: (1) Do marketing innovation, market orientation and social capital have direct effect on competitive advantage? (2) Do marketing innovation, market orientation and social capital have effect on marketing performance through competitive advantage?

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Market Innovation

Islam Nahzrul and Sercan Ozcan (2012) explained that the framework of innovation analysis was first described by Joseph Schumpeter, an economist from Austria in the 1930s. His idea came to be known as the "creative destruction", in which innovations give birth to something to create new markets and on the other hand can destroy the old ones (Sweezy 1943). The capability of innovation is quite relative depending on the company size. Monopolistically, large companies have stronger advantage. At this time, the idea of Schumpeter attracts the attention of some academics and managers. The management of innovation strategy plays an important role in local and global markets. Furthermore, there have been many studies on innovation management but there is only a little analytical framework that can be integrated in the creation of new innovations to create new markets. One of the theoretical frameworks that use analysis tools of innovation strategy is Kim and Mauborgne's (2010) *Blue Ocean Strategy* (BOS). The strategy conducted by BOS is a strategy of innovation value, where the value of new innovations can win market competition and enters new markets. BOS can use the existing tools of innovation value that is appropriate in the field conditions.

One of the innovation analytical tools used by BOS in the innovation strategy is the Four Actions Framework (FAF) in Kim and Mauborgne (2010). FAF help build new value by determining the differentiation and low cost. There are four strategic questions that can help the framework of innovation achieve market competition, consisting of reduce, raise, create, and eliminate related to the products.

Kotler and Keller (2012) stated that innovation in the context of marketing is considered critical and imaginative ideas as a strategy to create a market in various places among other companies. The key to success in winning the market is by increasing the role of creative innovation that can bring brilliant ideas that affect the company's competitive advantage. Deshpande, Farley, and Webster (1993) explained that innovation in business emphasizes on the creation of new products and services using the accumulated knowledge of customers, competitors, and technology. Innovation can help the creation of new products and create competitive advantages in line with the technological superiority. The fact shows that technology can create new markets, or the creation of new hope, desire, and experience,

for visitors or customers. It could be said that technological innovation is related to the creation of products, services, or production process (Lovelock 1996).

Marketing innovation has relationship with competitive advantage and marketing performance. Kotler and Keller (2012) in marketing management stated that marketing innovation has an effect on competitive advantage and marketing performance. Competitive advantage also has an effect on marketing performance. Ahuja (2000) proved that the innovation of an organization will improve the performance of the company, including marketing performance. Survey by Goyal (2003) proved that the innovation process of a partnership will impact on the marketing performance. Deshpande (1993) stated that marketing innovation can create competitive advantage and marketing performance.

Market Orientation

Narver and Slater (1990) described the origin of market orientation. At first, market orientation was known as organizational culture and just a process or a variety of activities of organizational culture. Market organization needs the commitment of the members of the organization to create added-value from their customers. Based on this value, the basic principle of a market orientation states that everyone in the company should be able to contribute their skills and knowledge to create customer value. In this case, increased market orientation can improve marketing performance. In addition, it can also increase competitive advantage. The next is to identify market orientation into three dimensions: customer orientation, competitor orientation, and coordination among functional orientation.

Market orientation in a business should understand not only the needs of customers but also the strength of the competitors, which is eventually it is expected to achieve customer value. Based on the customer value, competitive advantage can be achieved the companies concerned. Narver and Slater (1998) stated that market orientation can be described philosophically. The focus is on the corporate profits in the long term that can be achieved through three factors, namely: a customer orientation, competitor orientation, and coordination among company's functional orientation. For that reason, the three factors can be used as an indicator of market orientation. Narver and Slater (2000) concluded that market orientation has positive relationship with company performance. The company performance includes financial performance, hu-

man resources performance, and marketing performance. This means that market orientation also has relationship with marketing performance.

Jaworski and Kohli (1990) based market orientation on three elements: the creation of market intelligence, dissemination of intelligence in all departments, and the speed of the company to respond the market. Carmen Camarero and Ma Jose Garrido (2012) divided market orientation into four dimensions: customer-oriented, donor-oriented, collaboration-oriented, and coordination among functional orientation.

Top management plays a leadership role in cultural change and in the creation of market orientation. Building organizational culture and conditioning it in evolution ways are the uniqueness and essential function of leadership (Senge 1990). Based on the theories and findings by Jaworski and Kohli (1993), the most important factor in the leadership of top management is the creation of market orientation. Top management is committed to maintaining the continuity of generations, the use market intelligence and the desire of top management.

The creation of a market orientation is the core value of inter-functional commitment to maintain sustainability of the creation of added value for the customers. The core value is obtained from the functional processes and activities to create and satisfy customers on the fulfillment of the needs continually (Deshpande and Farley 1997).

Ahmed and Krohn, (1994: P.115) in Julian, C.C. (2005) defined market orientation as the degree to which individuals are aware of the needs and wants of one's customers, and how the firm might best meet those needs and wants.

Market-oriented company is a company that uses the skill in learning the needs of customers, and the satisfaction of these needs in a way how to satisfy the customer's needs more than its competitors (Jaworski and Kohli 1990). According to Porter (1985), market orientation is needed to achieve a sustainable competitive advantage. At least there are three groups of stakeholders in market orientation, namely customers, employees, and shareholders.

Tomaschova, in his research in 2005 and 2008 used seven elements: (1) external environment, (2) end consumer, (3) distributor, (4) competitor, (5) supplier, (6) reflection of knowledge in decision-making process, (7) coordination among functional. While Camarero and Garrido (2012) in their study used four dimensions: (1) visitor-oriented, (2) donor-oriented, (3) collaboration-oriented, (4) coordination among functional oriented. Further-

more, Tomaskova (2005) said in his research that market orientation needs to be known and understood deeply, because market orientation includes the acquisition, distribution and response to market information. Many studies agree with the market orientation which is divided into: customer orientation, competitor orientation, and coordination among functional orientation. Some new approaches are not only oriented on customers and competitors, but also all groups of suppliers, public, workers, and others. Market orientation with long-term business sustainability can be interpreted as the life and death of the company, because, company is basically viewed as going concern or sustainable.

Market orientation has relationship with competitive advantage and marketing performance. For example, Narver and Slater (1990) stated that the increase in market orientation will improve the company's performance. On the other hand, market orientation can increase competitive advantage. And then, they identified the market orientation in three dimensions: customer orientation, competitor orientation, and coordination among functional orientation. Narver and Slater (1998) described the origin of market orientation. At first, market orientation was known as organizational culture and just a process or a variety of activities of organizational culture.

Market organization needs the commitment of the members of the organization to create added-value from their customers. Based on the value, the basic principle of a market orientation is that everyone in the company should be able to contribute their skills and knowledge to create customer value. The philosophy of market orientation focuses on customer satisfaction and market stability that have an impact on competitive advantage. Narver and Slater (2000) concluded that market orientation has positive relationship with company performance. This can also be aserted by Fatonah (2009) who proved that market orientation has significant affect on competitive advantage and marketing performance. Besides that, a study by Pelham (1999) concluded that market orientation is needed by small industrial company to create customer satisfaction, which in turn can create competitive advantage. Cadogan et al. (1999) concluded that basically there is a relationship between market orientation and marketing performance. Research by Thomaskova (2005) stated that the market orientation, which contains acquisition, distribution and response to market information, can create marketing performance.

Jaworksy and Kohli (1990) concluded that the customers are the major stakeholder in market orientation. The creation of customers will have an impact on marketing performance. Dalgic (1994) proved that market orientation has a significant relationship with marketing performance. Julian (2005) concluded that there is a significant relationship between market orientation and marketing performance.

Social Capital

Bourdieu (1985) stated that social capital is the aggregate of the actual or potential resources which are linked to the possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition. In line with social capital, Woolcock (1998) defined it as the information, trust, and norms of reciprocity inhering in one's social network. Then, the attributes of good social capital is the information that is built and utilized, the trust that is fostered and the norms of mutual giving and mutual serving, which is basically the spirit to grow together, i.e. social capital that can be built. OECD (2001) described social capital as follows "*social capital* is networks together with shared norms, values and understandings that facilitate cooperation within or among groups". So, social capital is actually an organizational network done by sharing common norms, value systems, mutual understanding cooperatively between one group and another.

Ferdinand (2005) identified the concept of social capital, namely: the development of networks both within and outside the organization (network), the development of social networking (social network), the development of a sense of trusted (trust), the strengthening of norms of work and relationships between people and between the organization (norms), the development of social cohesion (social cohesion), the development of norms of reciprocity (norms of reciprocity), as well as the development and maintenance of cooperation (cooperation) that in a practical level can be developed and treated as resources which can generate and improve performance in the context of marketing.

Social capital can also be defined as an ability to enter into an agreement or a set of values or norms that are owned by the members of a group that can make collaboration to achieve certain goals (Fukuyama 2000). Again, social capital is one of the organization's resources that are important in a relationship. Thus, establishing relationship among organizations can allow the presence of mutual

understanding and agreement that social capital, in the form of a network and the trust, has an important role to improve innovation and organizational performance (Ahuja 2000).

In this case, Putnam (2000) used attitudinal-oriented approach that focused on the social structure as a source of social capital. The existence of social capital reflects the cooperation between members that brings benefits to each other. And, the social capital will then strengthen the presence of any other capital in the organization.

Coleman (1998) split the three main elements of social capital as follows: (1) the obligations and expectations arising from the sense of confidence in its own environment, (2) the importance of the flow of information existing in the community, (3) the norms that must be obeyed with clear sanctions and adhered to. The social capital which is defined by its function is not a single entity, but it is composed of various entities in the social relations. Social capital is inherent in the structure of the relationship between the individuals, in which norms and value system are the source of social capital.

In another occasion, the definition of social capital is also indicated by Robison and Schmidt (2002), in which social capital is feeling the sympathy of a person or group of people to another party. The feelings of sympathy can be described as a sense of awe, attention or trust to individuals or groups. This definition, in fact, is able to explain the various forms of manifestations of social capital, which includes the social capital within the group and among other groups.

More importantly, Denison (2007) described the notion of social capital in internal-based and external-based. Internal-based social capital is built from the internal sources of the organization, while external-based social capital is built through the company's ability to develop a variety of social networks, networks, trust, social norms and social relations. The success to achieve the performance of a company can be determined by how strong the relationship between the companies in the form of co-operation to achieve the intended purpose.

Social capital has relationship with competitive advantage and marketing performance. Research by Kertati (2012) tested the variables that affect business performance improvement through social capital and organizational learning as well as its implications. Based on the support of the significance of hypothesis testing, it can be stated that social capital development and organizational learning can realize business performance, especially in

the performance of financial, marketing and human resources. Lee and Penning (2001) stated that social capital affects marketing performance significantly. Ahuja (2000) proved that social capital in the form of networking will increase the company's performance. Goyal (2003) proved that the networking will have implications on short-term and long-term welfare and then bring impact on the company's performance.

Competitive Advantage

Porter (1985) argued that competitive advantage is the heart of the company's performance in the market competition. At present, competitive advantage becomes very important, because the company faces competition both domestically and globally. Porter described a common strategy to face the competition, there are three strategies: (1) Cost leadership, (2) Differentiation, and (3) Focus. How is the way to practice the three strategies in order to achieve a competitive advantage? Cost leadership is the company's strategy to use lower production costs than other companies in market competition. Differentiation is the company's strategy to create unique products that are different from the competitors' products. The products are typical or have a lot of attributes so that many buyers feel and realize that the products are needed. The focus is the company's strategy to determine the target market segments. Focus strategy has two objectives, (i) cost focus, the company is seeking for a cost advantage in the targeted segment, and (ii) differentiation focus, the company is seeking for various destination targets.

Christensen (2010) stated that competitive advantage provides business value that motivates its customers (or end users) to purchase its products or services rather than those of its competitors and that poses impediments to imitation by actual or potential direct competitors.

In general, competitive advantage has been defined as an advantage owned by a company in the face of many competitors in relation to the industrial market (Kay 1993, Azaze AA & Evelyn 2010). Furthermore, the competitive advantage should be achieved continuously, not just temporarily. Thus, competitive advantage is defined as a sustainable advantage or a sustainable competition.

Barney (1991) developed theories and concepts that can be identified as the dimensions of competitive advantage and later used as indicators in the study, namely: (1) valuable, meaning that the product or service offered has a value, (2) imitability, meaning that the product is not easily imitated,

(3) durability, meaning the product must be more durable than the competitor's products, (4) transferability, meaning that the product must be convenient in order to outperform the competitor's products.

Porter (1985) described the strategy of competitive advantage through the core concept of "The Five Competitive Forces". This strategy used five competitive advantage forces, namely competitors industry, buyers, suppliers, potential entrants, substitutes.

Competitive advantage is linked to marketing performance. In connectin with competitive advantage, Waluyo Minto (2011) concluded that marketing performance is essentially a feat which is achieved by the company in terms of marketing. Marketing performance is influenced by a sustainable competitive advantage. Research by Pelham (1999) concluded that market orientation is needed by small industrial company to create customer satisfaction, which in turn can create competitive advantage that affects marketing performance. Porter (1985) stated that based on the strengths and weaknesses of competitors, the company should decide strategies to make improvements related to the chain of value towards competitive advantage to create marketing performance. Kotler and Keller (2012) in Marketing Management stated that marketing innovation has an effect on competitive advantage and marketing performance. And competitive advantage has an effect on marketing performance.

Marketing Performance

Kotler and Keller (2012) described that marketing performance can be divided into factors, financial and non-financial, for business and social activities of marketing programs and activities. The top managers increase sales results and interpret what happens to the market share, customer loyalty, customer growth, customer satisfaction, and other measures such as ethic, legal, environment, and community. The impact of marketing activities generated by the company and the customer is so great. Therefore, marketers must consider the ethic, legal, environmental, and social context of marketing roles and activities. So, the task of the company is to determine a variety of needs, desires, and attraction that become the market target and customer satisfaction more than the effectiveness and efficiency of the competitors in the long term.

Ambler (2000) argued that if a company thinks that it has measured its performance adequately,

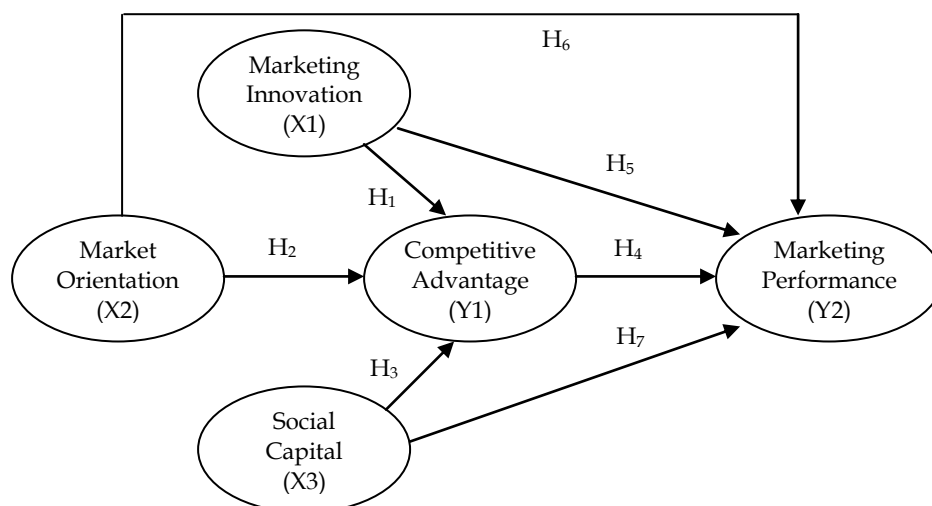


Figure 1
Model Constructed

the company is supposed to ask five questions to itself: (1) Do you regularly conduct research on consumer behavior (maintain, acquire, use, etc.)? Why do consumers behave like that (awareness, satisfaction, perceived quality, etc.) ?, (2) Are the results of this research routinely reported to the board of directors in a format that is coupled with a financial marketing matrix, (3) In the report, are the results compared with the level that is previously foreseen in the business plan? (4) Are the results also compared with the level that is achieved by major competitors, using the same indicators? (5) Is the short-term performance adjusted according to changes in marketing-based assets? Furthermore, Ambler believed that the company must give priority to the measurement and reporting of marketing performance. Evaluation can be divided into two parts: (1) short-term results, (2) changes in brand ownership (equity). Short-term results can be shown in the profit and loss such as sales turnover, shareholder value, or a combination of both. The size of brand ownership includes: awareness, market share, relative price, the number of complaints, distribution, the number of customers, perceived quality, and loyalty. In this case Ambler also suggested the need of the development of marketing performance measurement by arguing that "the end user is the last customer, but your own staff is the first for you: then you need to measure the health of your internal market.

Research Model

Based on the formulation of the problems, theories and relationships between variables can conceptually be described in the following research model in Figure 1.

Hypothesis

Based on the relationships between variables that have been drawn in the research model, the hypothesis can be formulated as follows:

1. Marketing innovation has significant effect on competitive advantage.
2. Market orientation has significant effect on competitive advantage.
3. Social capital has significant effect on competitive advantage.
4. Competitive advantage has significant effect on marketing performance.
5. Marketing innovation has significant effect on marketing performance.
6. Market Orientation has significant effect on marketing performance.
7. Social Capital has significant effect on marketing performance.

3. RESEARCH METHOD

Population and Sample

Population is the area of generalization consisting of the object or subject that has certain qualities and characteristics defined by the researchers to be learned and then deduced. So, population may consist of not only goods, but also objects and other materials. Population can be the number existing on the object/subject being studied, but it may also be the characteristics owned by the object or subject. The sample is part of the number and characteristics owned by the population. When the number of population is relatively large, and the researchers are unable to examine the entire population, then they will take the samples. The conclusion of what is learned from the sample can then be applied to the population (Sekaran 2003).

Table 1
The Number of Sample Size in Each Regency

No.	Regency	Number of MSMEs (Companies)	Number of Samples (Companies)
1.	Kudus	114	44
2.	Batang	68	26
3.	Pekalongan	80	31
4.	Tegal	16	6
5.	Purworejo	28	11
6.	Klaten	82	32
	Total	388	150

Source: Department of Industry and Trade of Central Java 2014 processed.

The population in this study is the total number of Micro, Small and Medium Enterprises (MSMEs) of embroidery in Central Java that spread in six regencies: Kudus, Batang, Pekalongan, Tegal, Purworejo, and Klaten.

The data on the number of the population can be seen in Table 1, in which there are 388 Embroidery companies in Central Java. Samples are the parts taken from the population. As the number of population is relatively large, the samples are used for the purpose of this study. Hair et al. (2006) set the size of the sample for Structural Equation Model (SEM) program ranging from 100 to 200, and can be calculated that sample size is the number of indicators multiplied by (five to ten). It is representative enough when using the analysis of Structural Equation Model (SEM). This study uses a sample size of 30 indicators multiplied by 5 = 150 respondents considering that the population is homogeneous, i.e. embroidery companies under the guidance of Department of Industry and Trade of Central Java.

Sampling Technique

Sampling is done proportionally as shown also in Table 1. This study uses a proportional random sampling technique. It is said to be random because the selection of the sample members is done randomly without considering the strata existing in the population. Such method is carried out when the population is considered homogeneous (Sugiyono 2010)

Variable Measurement Scale

This study uses the measurement of interval data with an interval scale. It is a data measurement tool that produces a range of data values and has meaning. The data, in the form of interval, can be obtained using Likert scale techniques. Likert scale with scores of Strongly Agree (SS): 5, Agree (S): 4, Neutral (N): 3, Disagree (TS): 2, Strongly Disagree (STS): 1.

Validity and Reliability Test

The researchers used validity test through SEM package program of AMOS version 22 (Imam Ghazali 2013). To measure the validity of each item of the questions or indicators can be seen from the value of Standardized *Loading Factor* Estimate which is required to be equal to 0.50 or more, or with the ideal value of 0.70.

Reliability test is used to measure the consistency of the internal indicators of a variable formation that indicates the degree to what extent each indicator can indicate a variable formation. According to Imam Ghazali (2013), the cut-off value of reliability construct is 0.70 or more. Ferdinand (2006) stated that the limit value used to measure the level of reliability that can be accepted is 0.70 or more, but it is not the fixed size. This means that if the research conducted is exploratory in nature, then values below 0.70 are still acceptable as long as it is accompanied by empirical grounds seen in the exploration process.

Data Analysis Method

The questionnaires distributed to respondents are open questionnaires and closed questionnaires. Open questions are in the form of personal data and related to the qualitative data of each indicator which is concluded descriptively.

The data of the closed questionnaire results were processed with the objective to test and analyze the effect of exogenous and endogenous variables, as well as to check the validity and reliability of the research instrument as a whole. The program package used is AMOS (Analysis of Moment Structure) version 20 with the analysis technique of Equation Structural Modeling (SEM) (Ghozali 2013).

The variables and indicators used in this research are: (1) marketing innovation variable, consisting of development of innovative products, marketing programs, solutions to customer problems, searching for customer needs, creating new

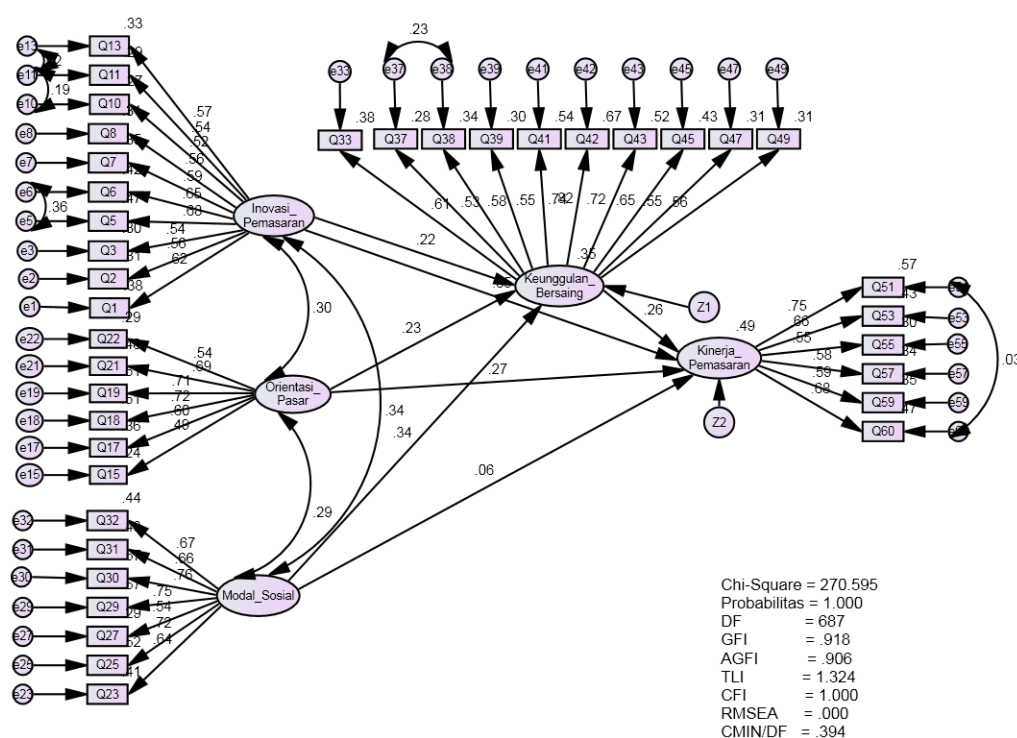


Figure 2
Diagram of Full SEM Model Modification

distribution channels, brands, and talent; (2) market orientation variable, consisting of customer orientation, collaboration orientation, distributor orientation, and supplier orientation; (3) social capital variable, consisting networking, social networking, sense of trust, norms of work, and cooperation; (4) competitive advantage variable, consisting the value of the company, imitability, durability, transferability, product differentiation, the strength of the competitors, the value of the customer's bargaining, bargaining power of suppliers, the possibility of new competitors; (5) marketing performance: variable, consisting of customer growth, sales revenue, market share, customer loyalty, community to create customers.

Conformity Test Model

Conformity test of SEM model was first developed by using Chi Square test and followed by fit index test. Chi Square is depending on sample size, so it requires the measurement of index conformity and the adequacy of the models which are not sensitive to sample size such as GFI, AGFI, CMIN/DF, TLI, CFI and RMSEA. They all will be tested and can be seen in Figure 2, the full model diagram.

Based on the full model with 60 items of questions and after the validity and reliability test, then modifications should be done by reducing the question items that are not used. This full model

modification can be seen in the Figure 2.

Conformity test of SEM model can be done by comparing the cut-off values in Table 2.

4. DATA ANALYSIS AND DISCUSSION

Null hypothesis means that there is no causal relationship between independent variable and dependent variable while, alternative hypothesis means that there is causal relationship between independent variable and dependent variable. The terms of probability hypothesis test of <0.05 is significant or $CR \geq 2$. The results of hypothesis test can be seen in Table 3.

Hypothesis Test 1

Marketing Innovation Has Significant Effect on Competitive Advantage

The results based on the empirical data in the field of the first hypothesis show that the probability value $p = 0.025$ is smaller than the probability value required ($p = 0.05$). This means that the hypothesis is accepted, because marketing innovation has significant effect on competitive advantage. The hypothesis test through Critical Ratio (CR) indicates that CR value of 2.237 is greater than the CR value required ($CR \geq 2.00$). This means that there is a significant causal relationship between marketing innovation and competitive advantage.

The result of this hypothesis test supports the

Table 2
Results of Model Test of Goodness of Fit and Cut off Value

Goodness of Fit Index	Cut off Value	Results of Model Test	Description
Chi Square	<749.09	270.595	Accepted
Probability	> 0.05	1.00	Accepted
GFI	> 0.90	0.918	Accepted
AGFI	> 0.90	0.906	Accepted
RMSEA	< 0.08	0.00	Accepted
TLI	> 0.95	1.00	Accepted
CFI	> 0.95	1.00	Accepted
CMIN / DF	< 2.00	0.394	Accepted

Source: Data processed.

Table 3
Results of Hypothesis Test

No.	Causal Relationship	Estimate	CR	Probability	Description
1.	Marketing Innovation → Competitive Advantage	0.220	2.237	0.025	Significant
2.	Market Orientation → Competitive Advantage	0.232	2.292	0.022	Significant
3.	Social Capital → Competitive Advantage	0.345	3.354	0.000	Significant
4.	Competitive Advantage → Marketing Performance	0.258	2.404	0.016	Significant
5.	Marketing Innovation → Marketing Performance	0.349	3.330	0.000	Significant
6.	Market Orientation → Marketing Performance	0.266	2.572	0.010	Significant
7.	Social Capital → Marketing Performance	0.061	0.638	0.524	Not Significant

Source: Data processed.

theory of Kotler and Keller (2012) in marketing management that marketing innovation has direct effect on competitive advantage and marketing performance. This result supports the research by Deshpande (1993) which concluded that marketing innovation can create competitive advantage and marketing performance. Thomaskova (2005) described that competitive advantage has two dominant frameworks, i.e. changing in market products and focusing on the customer and competitor. In this case, changing in market products is synonymous with marketing innovation. So, the result of the hypothesis testing in this study supports Thomaskova's description. The result of this study proves that marketing innovation has significant effect on competitive advantage. This result also supports the research by Verganti (2008) which concluded that innovation is a very important factor, given that innovation is one of the ways to win competitive advantage.

The fact in the field indicates that the embroidery product which experiences many marketing innovations is the embroidery product from Kudus Regency, in which the motifs of embroidery product is associated with the local wisdom possessed by the area, such as Kudus tower, tobacco flower, cigarette mill, parijoto flower, jenang Kudus, sugar

spices, lentog Tanjung, twin house, Muria tales, etc. The product innovation also combines batik motifs with embroidery motifs. During the field research on respondents in Tegal Regency, there is only one businessman who produces innovative embroidery products by creating embroidery products nuanced indigenous motifs depicting fish flaky golden sea, which implies keeping the ecosystem in the sea, considering that Tegal has a sea area as the livelihoods of the majority of the people. The impact is that the businessman receives abundant orders. This describes that his products excel in competition.

Hypothesis Test 2

Market Orientation Has Significant Effect on Competitive Advantage

The test results based on the empirical data of the second hypothesis show that the probability value $p = 0.022$ is smaller than the probability value required ($p < 0.05$). Thus, it can be concluded that market orientation has significant effect on competitive advantage. The hypothesis test through CR indicates that CR value of 2.292 is greater than the CR value required ($CR \geq 2.00$). This means that market orientation has significant effect on competitive advantage.

The hypothesis test proves that market orientation has significant effect on competitive advantage. Pelham (1999) stated that, theoretically, the relationship between market orientation and competitive advantages should be able to be used to illustrate that the market orientation is needed to create customer satisfaction, which in turn create a sustainable competitive advantage. In other words, the company that knows the needs and desires of the customers in the long run will certainly be able to develop strategies to maximize its strength, so that the company is able to gain a competitive advantage by making use of the existing opportunities and minimizing the external threats. The strategy is expected to be used to achieve competitive advantage. The results of this study support the statement of Pelham that, basically, market orientation has an effect on competitive advantage.

The results of this study are also consistent with the statement by Narver and Slater (1990), that the basic principle of market orientation is that everyone in the company should be able to contribute skills and knowledge to create customer value. Increased market orientation will improve marketing performance. On the other hand, market orientation can increase competitive advantage. Narver and Slater (2000) concluded that market orientation and company performance have a positive relationship. The company performance includes financial performance, human resources performance and marketing performance. Market orientation also has a relationship with marketing performance. Researchers conducted by Cadogan et al. (1999), Dalgie (1994), Julian (2005) concluded that basically there is a significant relationship between market orientation and marketing performance. Porter (1985) also stated that market orientation is necessary to create a sustainable competitive advantage.

Hypothesis Test 3

Social Capital has significant effect on Competitive Advantage

The test results based on the empirical data in the field of the third hypothesis show that the probability value $p = 0.000$ is smaller than the probability value required ($p < 0.05$). Therefore, it can be concluded that social capital has significant effect on competitive advantage. Based on the value $p = 0.000$, this indicates that the effect is really significant. The hypothesis test through CR indicates that CR value of 3.354 is greater than the CR value required ($CR \geq 2.00$). This means that social capital

has significant effect on competitive advantage.

The results of this hypothesis test support the research by Liy (2007) who stated that competitive advantage is the company's resources which are interpreted as financial resources, human resources and social capital resources, which means that social capital resources can create competitive advantage. Wolcock (1998) stated that social capital has attributes as the information to be built and utilized sense of being trusted developed and norms of mutual giving, mutual serving, which is essentially a spirit to grow together, as social capital that can be built towards a competitive advantage. In the implementation, this Walcock's theory is supported by the results of hypothesis test in this study. This study uses social capital variable consisting of five indicators, namely networking, social networking, sense of being trusted, norms of work, and the development of cooperation that affect the competitive advantage.

Embroidery business through Program Approximation Competitive Advantage (PACA) uses five forces porter (1985). This evaluation is intended to measure the possibility of the increase in strata from centers into clusters. The main characteristic of clusters is there is a strong attachment between businessman and supporting industries and supporting institutions. On the other hand, it can penetrate the global market. The fact is that the business groups that can be classified as a cluster of embroidery is the embroidery cluster in Kudus Regency.

Hypothesis Test 4

Competitive Advantage has significant effect on Marketing Performance

The test results based on the empirical data in the field of the fourth hypothesis show that the probability value $p = 0.016$ is smaller than the probability value required ($p < 0.05$). So it can be concluded that competitive advantage has significant effect on marketing performance. The hypothesis test through CR indicates that CR value of 2.405 is greater than the CR value required ($CR \geq 2.00$). This means that competitive advantage has significant affect on marketing performance.

The results of this hypothesis test support the theory of Fahey (1989) which defined that competitive advantage is something that is preferred or the products that are more preferred than the competitors' products, oriented in a sustainable competitive advantage that is used to influence the marketing performance. The results of this hypothesis also support the theory of Kotler and

Keller (2012) who states that competitive advantage can be created through a variety of market-oriented innovation activities to build marketing performance. Porter (1985) suggested that basically there are three strategies to achieve competitive advantage in the marketing performance of a business, namely cost leadership, differentiation and focus. Cost leadership is one of the companies' strategies to use a lower cost than competitors. Differentiation is the company's strategy to create unique products, which are different from competitors' products, have specificity (typical), have a lot of attributes, so many buyers are in need. Focus is the company's strategy to determine the targeted market segments.

These results also support the theory of Christensen (2010) which states that the existence of products to customers or end users which have the characteristics of hard to duplicate is the advantage of a company to achieve performance expected. The results also support the research by Pelham (1999) which concluded that market orientation is needed by small industrial company to create customer satisfaction towards competitive advantage and marketing performance. This means that competitive advantage affects marketing performance.

The findings in the field indicate that the competitive advantage of products is dominated by embroidery companies in Kudus Regency that have much more nuance of local wisdom. The excellent products owned by the embroidery businessmen in the Kudus apply different-oriented strategies and focus on the targeted market segments. Marketing performance is also more dominated by embroidery businessmen in Kudus because it is in line with products differences owned products and larger market segment that can penetrate various major cities in Indonesia.

Hypothesis Test 5

Marketing Innovation has significant effect on Marketing Performance

The test results based on the empirical data in the field of the fifth hypothesis show that the probability value $p = 0.000$ is smaller than the probability value required ($p < 0.05$). So it can be concluded that marketing innovation has significant effect on marketing performance. The hypothesis test through CR indicates that CR value of 3.330 is greater than the CR value required ($CR \geq 2.00$). This means that marketing innovation has significant effect on marketing performance.

The results of this hypothesis test are in line

with the strategy undertaken by Blue Ocean Strategy (BOS) Kim and Mauborgne's (2005) related to innovation value strategy in which the value of new innovations can win new market competition so as to improve marketing performance.

The results of this study also support the theory of Kotler and Keller (2012) which states that innovation, in the context of marketing, is critical. Imaginative ideas as a strategy to create a market in various places and to enhance marketing performance are expected to increase. The results of this study are also consistent with research by Ahuja (2000) that proved that the organizational innovation will improve the company performance including the marketing performance. A survey conducted by Goyal (2003) proved that the innovation process of a partnership has an impact on marketing performance. Deshpande (1993) stated that marketing innovation can create a competitive advantage and marketing performance.

The reality in the field shows that the innovation market in Kudus Regency is dominated by embroidery companies, which includes innovation development, marketing programs, solution to customer's problems, customer's needs, new brands creation, new distribution channels, and workers' talent. The development of innovation is done through the creation of products motifs nuanced local wisdom and trends of motif at national level. Marketing programs is designed to suit the wishes and needs of customers that always change in accordance with the evolving dynamics. If there are problems on customers, the employers are trying to find the best solution according to the agreement between the customer and the owner of the company. In looking for customers, it can be done through direct contact between the owners and the prospective customers, through retailers, through stakeholders, through promotion in various media, through various organizers of expo. Distribution channels are developed in line with the increase in new customers in different places. The creation of new brand is a product identity attached to the company.

Hypothesis Test 6

Market Orientation has significant effect on Marketing Performance

The test results based on the empirical data in the field of the sixth hypothesis show that the probability value $p = 0.010$ is smaller than the probability value required ($p < 0.05$). So it can be concluded that market orientation has significant effect on marketing performance. The hypothesis test through CR

indicates that CR value of 2.572 is greater than the CR value required ($CR \geq 2.00$). This means that market orientation has significant effect on marketing performance.

The results of this hypothesis test supports the statement of Narver and Slater (1990, 1998, 2000) which states that the increased market orientation will improve marketing performance. In principle, market orientation has significant effect on marketing performance. The researches by Cadogan et al. (1999), Dalgie (1994), Thomas Kova (2005), and Julian (2005) also concluded that there is a relationship between market orientation and marketing performance. Jaworski & Kahli (1990) also concluded in their study that market orientation has an effect on marketing performance.

The results of this research differ from the researches by Pelham (1997) and Greenley (1995), in which both concluded that market orientation has no relationship with business performance. The researches conducted by Pelham and Greenley used endogenous variable, that is a business performance related to the financial performance of marketing and human resources, resulting in no significant relationship between market orientation and marketing performance. Meanwhile, this research is using marketing performance as an endogenous variable. Therefore, this research focuses more in the context of marketing and does not relate to financial and human resources. And the result of this study proves that market orientation has significant effect on marketing performance. Embroidery entrepreneurs in Central Java provide information that can be concluded that marketing orientation which focuses on the customers' needs and desires will improve the marketing performance through sales revenue, customer loyalty and increasing numbers of customers.

Hypothesis Test 7

Social Capital has no significant effect on Marketing Performance

The test results based on the empirical data in the field of the seventh hypothesis show the probability value $p = 0.524$ is greater than the probability value required ($p < 0.05$). Therefore it can be concluded that social capital has no significant effect on marketing performance. The hypothesis test through CR indicates that CR value of 0.638 is smaller than the CR value required ($CR \geq 2.00$). This means that social capital has no significant effect on marketing performance.

Although social capital does not directly affect the marketing performance, social capital has a role

to influence the marketing performance through competitive advantages, in which social capital has an effect on competitive advantages, and then the competitive advantage affects marketing performance. So in this case, competitive advantage is acting as an intervening variable that connects the variables of marketing innovation, market orientation and social capital to marketing performance. Marketing innovation and market orientation have a significant influence on marketing performance, but social capital does not have a direct influence on marketing performance.

Social capital has an influence on marketing performance through competitive advantage. The results of this hypothesis test do not support the results of the researches conducted by Lee and Penning (2001), Ahuja (2000), Goyal (2003). They all concluded that social capital has direct effect on marketing performance. This occurs because the focus of the entrepreneurs, in relation to social capital, is more on the demands of the idea of achieving more excellent product than competitors' products. The achievement of excellent products will surely affects marketing performance. Embroidery product is the flagship product in Central Java Province, which means that the achievement of competitive advantage becomes the main focus of achievement, and is evaluated to improve shared business group in order to become a cluster of embroidery which has a competitive advantage in the context of the expansion of the market, linkages with supporting industries and supporting institutions.

In Central Java Province, the program of superior products development to facilitate the shared business groups of MSMEs towards dynamic cluster is conducted annually by the Provincial Government Work Unit such as the Department of Trade and Industry, Department of Cooperatives and MSMEs, Economic Department, Regional Body for Planning and Development (Bappeda), partnership with FEDEP, Business Development Service (BDS), Indonesian Chamber of Commerce (Kadin), State-Owned Enterprises (SOEs), banks, universities, and private consultants in order to achieve a competitive advantage of the products. It is expected that the embroidery products of MSMEs that have social capital in the form of a network of cooperation or partnership with the stakeholders will have a competitive advantage that ultimately affects the marketing performance of each of business group. The program is captured the entrepreneurs who take shelter in the business group. So, it is logical

when the entrepreneurs think that the social capital built will influence the competitive advantage and ultimately has an impact on the marketing performance. This means that social capital does not directly affect marketing performance, but through the competitive advantage.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Conclusions of this research are:

1. Marketing innovation has significant effect on competitive advantage.
2. Market orientation has significant effect on competitive advantage.
3. Social capital has significant effect on competitive advantage social.
4. Competitive Advantage has significant effect on marketing performance.
5. Marketing innovation has significant effect on marketing performance.
6. Market orientation has significant effect on marketing performance.
7. Social capital has no significant effect on marketing performance social.

The structural model which is built from the causal relationship between the variables of marketing innovation, market orientation, social capital, competitive advantage, and marketing performance can be used for decision making by embroidery entrepreneurs and the government.

The recruitment of labor in embroidery companies needs to use talent-based labors in order to contribute to marketing innovation to improve competitive advantage and marketing performance.

In offering the products, the embroidery entrepreneurs should have orientation on customer needs, which in turn can create customer value.

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